

Layman Case Refund Checks Q & A

June 30, 2006

Q: Why did I receive this check?

A: The South Carolina Supreme Court recently ordered the South Carolina Retirement System (SCRS) to refund employee contributions made by those TERI program participants who began their TERI participation prior to July 1, 2005.

Q: How did you calculate the interest?

A: In accordance with the court directive, interest on payments issued before July 1, 2006, receive interest at the rate of 4 percent simple interest. For refunds issued after June 30th, interest will accrue at 4 percent through June 30th and at 11.25 percent July 1st and thereafter. For interest calculation purposes, quarterly contributions are assumed to be equally distributed over the 3 months in a quarter.

Q: Why were taxes taken out of my refund?

A: Refund checks are considered taxable income and are subject to federal income tax withholding of 10 percent. For income tax purposes, the refunded contributions are treated as an improper contribution distributed under a qualified plan and the amounts are not eligible for favorable tax treatment, such as rollover. The amount is includable in income in the year distributed, is not subject to the early distribution penalty, but withholding is applicable under the Internal Revenue Code. If you do not wish to have the 10 percent withheld, you may return the original check, along with a letter stating that you do not want the withholding taken out, and your refund check will be reissued without the withholdings. Letters and returned checks should be sent to the attention of SCRS' Benefit Payments Department, PO Box 11960, Columbia, SC 29211. Even if you elect not to have federal income tax withheld, you are liable for the payment of federal income taxes on the refund and may be subject to penalties for the estimated tax payment if your payments of estimated tax and withholding are not adequate.

Q: Why were only federal taxes taken out of my refund?

A: South Carolina does not require income tax withholding on this payment; however, you will be required to report this refund for South Carolina income tax purposes.

Q: Why couldn't I have rolled this money over into my 401(k)/deferred compensation account?

A: Your refund is a return of an improper contribution and is therefore not eligible for rollover treatment.

Q: Why am I only getting a refund on contributions paid through March 31, 2006? What about the rest of my money?

A: The June 30th refund checks represent member contributions withheld and reported from July 1, 2005, through March 31, 2006. Since SCRS only receives information identifying contributions to specific individuals from employers on a quarterly basis, we are unable to determine the contribution and refund amount for April through June 2006 until your employer's quarterly report is received and processed by SCRS. The second group of refund checks will be mailed by September 1, 2006.

Q: I no longer participate in TERI, but I am still working. Why did I get a refund?

A: The South Carolina Supreme Court recently ordered the Retirement System to refund employee contributions made by those SCRS members whose TERI participation began before July 1, 2005, and who made employee contributions to the system during their TERI period.

Q: There's a note at the bottom of my check that says I need to notify you if I ended TERI and returned to work. What do I need to do?

A: If you retired prior to July 1, 2005, and were rehired by a covered employer after terminating your participation in the TERI program, you must notify SCRS of the date hired and the employer for which you worked by contacting Customer Services at (800) 868-9002, (803) 737-6800, or cs@retirement.sc.gov. Although it has not historically been necessary for SCRS to capture such detailed data on working retirees, we must now obtain certified return to work information to comply with the recent court ruling. Your employer will also be required to appropriately identify retiree wage and contribution amounts reported, or expected to be reported, to SCRS for the quarter in which you terminated TERI and the quarter after TERI termination to sufficiently capture any payroll lag payments. It is necessary to differentiate between TERI and post TERI earnings for purposes of litigation.